

CABINET

16 December 2014

Title: Future Delivery of Vehicle Maintenance and Related Services	
Report of the Cabinet Member for Environment	
Open Report	For Decision
Wards Affected: None	Key Decision: Yes
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Accountable Divisional Director: Robin Payne, Divisional Director, Environment	
Accountable Director: Anne Bristow, Corporate Director, Adult and Community and Services	
Summary <p>The Council maintains a large and diverse fleet of vehicles and machinery that are used to support a wide range of services. In order to ensure that service delivery is not disrupted and that we meet our legal as well as health and safety obligations to staff and the public it is vital that our vehicles and plant are well maintained.</p> <p>The current maintenance arrangement is due to expire in August 2015. The nature and size of the fleet is likely to change significantly in the short to medium term as budget savings are implemented. During this time maintaining flexibility and reducing costs will be vitally important.</p> <p>An options analysis has been completed that takes into account the need to provide a flexible, cost effective service that can support the objectives of the council by creating opportunities for young people through apprentice positions and providing high quality good value services to the community such as MOT's.</p> <p>As a result of the requirement to retain flexibility and based on the projected vehicle maintenance budget surplus this report recommends providing an in-house vehicle maintenance model supported by local specialist companies.</p>	
Recommendation(s) <p>The Cabinet is recommended to:</p> <p>(i) Approve the recommended option to 'in-source' the Vehicle Maintenance Workshop at the expiry of the current contract on 31 August 2015, including the transfer of the current workforce back to the Council under Transfer of</p>	

Undertakings (Protection of Employment) Regulations 2006 (TUPE); and

- (ii) Authorise the Corporate Director of Adult and Community Services, in consultation with the Chief Finance Officer and the Head of Legal and Democratic Services, to explore the potential for the incorporation of a Trading Company to facilitate 3rd Party Vehicle Maintenance with the objective of income generation.

Reason(s)

In line with the requirements of the Heavy Goods and Passenger Service Vehicle Operator Licence Undertakings the Council has a legal obligation to ensure that the fleet is maintained to the required standards.

Reinstatement of the apprenticeship programme supports the Councils vision to 'Develop a local, skilled workforce and improve employment opportunities'.

The use of local businesses to provide specialised vehicle maintenance services support the Councils commitment to 'Growing the Borough'

1. Introduction and Background

- 1.1 The Council is required to have a robust and auditable maintenance arrangement in place as part of the obligations of its Operators Licence. Failure to have adequate maintenance in place will lead to the suspension or removal of the Operators Licence. If this was to happen then front line services across the Council will be severely disrupted and in many cases cease completely.
- 1.2 The requirement for services to make savings has had an effect on the size of the fleet. Services are increasingly looking to alternative methods of service delivery for example; double shifting and the use of multi purpose vehicles to reduce the requirement for cover vehicles. These changes have resulted in an ongoing reduction in the size of the fleet. The current round of savings proposals and the need to make savings on top of those means that the fleet size over the next 3 years is very uncertain and likely to change considerably.
- 1.3 Services have been consulted to determine what maintenance requirements they have over and above satisfying the terms of the Operators Licence. The feedback from services is that they require a local and flexible solution. This service needs to be local to maintain transport cost, so that reactive maintenance can be undertaken quickly to minimise disruption to services and so that services that operate a split shift can have vehicles maintained in down time. As further savings are required flexible operating practices will need to be considered to reduce downtime during shifts.
- 1.4 The Council currently operates 420 vehicles and over 600 items of machinery. These are maintained at the Vehicle Maintenance Workshop located at Frizlands Depot. The workshop employs 10 staff qualified in vehicle maintenance. In addition to maintaining the borough's corporate fleet, the workshop maintains a number of community transport vehicles and also offers MOT's to members of the public. The workshop building is owned by the Council and is fully equipped to carry out a wide

range of vehicle maintenance functions.

1.5 In 2009 to address the Council's ageing fleet profile a procurement process took place. The Council undertook the procurement process in 2009 prior to the Elevate Partnership. The contract included the supply of new vehicles on a lease basis, this included fixed price maintenance. The inclusion of fixed price maintenance in the vehicle agreements created TUPE implications. This ultimately led to the inclusion of the workshop facility in the letting of the contract. After extensive negotiations the contract was let to Translinc Ltd in August 2011 for a 4 year term. The contract is currently run by Kier following a takeover of Translinc by May Gurney and the subsequent buy out of May Gurney by Kier.

2. Current status

2.1. The business case for the current contract has a number of fundamental problems:

2.1.1 The full volume of work delivered by the workshop was not considered. The current contract considers work that is related to the scheduled maintenance of vehicles only. This scheduled work was used as the basis for the calculation of the contract rates. There is however a large number of reactive works that take place which amount to £550,000 pa, these works are in effect 'out of scope' of the current contract. If this reactive activity was considered in the initial tender then the economies of scale that it would generate would have considerably reduced unit prices within the contract.

2.1.2 The contract was set up in such a way that all new vehicles would be leased at the start of the contract and on a 4 year lease term. This was not realistic; services were at different stages in the replacement cycle meaning that new fleet procurement has been staggered, and some vehicles have a working life of over 4 years meaning that to procure on a 4 year basis would not have been best value for money. The Council is in a situation where at contract end the majority of the fleet has a significant period of time to run. Any incoming supplier would be required to maintain vehicles from a mid point in their lifespan. This makes a like for like re-procurement exercise far more expensive.

Figure 1: Current Contract Spend

Cost Category	Cost Line	£PA	notes
Vehicle Contract Hire	Vehicle Finance	£1,833,970.92	These costs are fixed for the duration of vehicle lease agreements.
Generally Scheduled Maintenance	Vehicle Fixed Price Maintenance	£862,055.76	Variable cost upon contract expiry. Opportunity to save.
Out of Scope Works	Fair, Non-Fair Wear and Tear works and customer requests	£600,000*	Variable cost Significant opportunity to save.
		£3,296,027.00	

*based on 2013/14 figures

- 2.2. The workshop in partnership with the local college has traditionally employed a number of apprentices. Under the incumbent contractor the apprenticeship programme has ceased. Continuation of the apprenticeship programme was not written into the current contract, this means that the Council does not have the authority to compel the current contractor to recommence the scheme.
- 2.3. Corporate Procurement have advised that contract rules mean that there is not an option to extend the existing contract with Kier. Progressing with a Single Tender Action and direct award would result in a significant risk of challenge and would not represent best value for money or provide the flexibility that uncertain fleet sizes will require.
- 2.4. As an operator of both Heavy Goods and Passenger Service Vehicles the Council is required by law to hold an Operators Licence. The workshop is currently contracted to maintain fleet vehicles in line with legal requirements. The Council however cannot subcontract the actual 'holding' of the licence and has retained both day to day oversight and responsibility. The Operators Licence is managed by the Fleet Management Service.

3. Options Appraisal

3.1. Do nothing

- 3.1.1 This is not a feasible option; the Council needs to have in place adequate maintenance facilities to maintain its fleet. Failure to have maintenance provision in place would result in suspension or termination of the Council's Operators Licence bringing front line services across the Council to a halt.

3.2. To re-procure the service on a 'like for like' basis

- 3.2.1. The value of the contract would be in the region of £1.25million pa and would be in scope of Public Contracts Regulations 2006. This enforces a standardised time table. Using the Cabinet date of December 2014 as a starting point and with adequate time set aside to specify the contract and advertise, the earliest that a compliant contract could be let is December 2015. This would in effect leave the Council without a vehicle maintenance provision for 4 months, again this is not feasible.
- 3.2.2 The current savings proposals, both approved and going through consultation will reduce fleet size. Even in cases where service provision is not reducing, fleet savings, are being generated by double shifting vehicles or modifying work patterns. The effect of these measures is a direct reduction in fleet, inevitably this will continue over time. Current and short term fleet volumes are uncertain. Hence, there is a significant risk to re-procuring an outsourced maintenance service on a like for like basis. An answer to this could be to only advertise using indicative volumes, however in any potential outsource tender, potential suppliers will price this risk into bids again increasing maintenance costs.
- 3.2.3 Services have made it clear that flexibility is essential. Savings are still being considered and the picture of service delivery is still being determined, there is a requirement for vehicle maintenance arrangements to be adaptable. Until the

Council has a clear understanding of fleet size and maintenance requirements letting a contract over a standard 3 or 5 year term represents a significant risk.

- 3.2.4 Re-procurement of a like for like contract would not represent best value for money. The fixed price maintenance agreements within the current contract are structured in such a way that any incoming supplier would be faced with increased maintenance risk, 3 year MOT requirements and outside of manufacturers' warranty periods. These factors combined mean that any incumbent supplier will price in a large degree of risk. This will make any new like for like contract significantly more expensive than the current contract. Budget over and above the current vehicle maintenance cost is not available.
- 3.2.5 The workshop represents an excellent opportunity for the Council to generate income by providing high quality well priced services to the public and local businesses. Outsourcing the workshop will prevent the Council generating income using the asset. The Council currently misses out in £20,000 pa in MOT income. The workshop has the potential to offer services to residents, local business, other public sector bodies and community partners. Outsourcing the facility means that any third party revenue generated will go to the supplier and not the Council.
- 3.3 Bring the management of the Vehicle Maintenance Workshop back in-house - The recommended option**
- 3.3.1 The most cost effective, lowest risk and most flexible option in the current savings driven environment is for the management of the Vehicle Maintenance Workshop to be brought back in-house. Analysis of the data available suggests that an in-house workshop will deliver a budget surplus of £147,508 per annum.
- 3.3.2 In-sourcing the workshop provides the Council with a degree of flexibility that a fixed term contract does not. With direct control over the workshop the Council can alter opening hours or service level agreements to support services to deliver savings as and when required. In the case of fluctuations in fleet size the workshop establishment can be tailored appropriately. Whilst the service is delivered in-house these changes can be implemented in good time and without the threat of any contractual issues or penalties.
- 3.3.3 The workshop operation houses the skills and equipment required to provide a significant income for the Council. Under current legislation the Council can extend its offer to local publicly funded bodies and deliver public MOT's. In the medium to long term future the formation of a trading company would allow the workshop to trade and provide further services to the public and local businesses. Additional income generation could offset the effect of any reduction in fleet size helping to retain jobs whilst delivering an income stream for the Council.
- 3.3.4 The performance of the workshop will be monitored via the use of defined Key Performance Indicators and via a service level agreement. Key Performance indicators will be set in line with consultation with key service users and will focus on cost. Initial consultation has suggested that performance indicators relating to 'vehicle downtime', 'maintenance on schedule' and 'response to breakdown' are a priority. A service user group chaired by the relevant Group Manager will take place on a regular basis in order to ensure that common issues are identified and that any proposals from services are highlighted and reviewed.

- 3.3.5 In this scenario at the end of the current contract the lease of the building and equipment will revert to the Council. The workshop will report through the existing Fleet Management Service and the employees engaged in the delivery of the workshop's activity will return under TUPE, back to the Council. The finance element of the lease agreements with Kier will remain in place and will run to the end of each individual term.
- 3.3.6 Profit and Loss forecast using the incumbent supplier's profit and loss figures suggests a surplus of £147,508 pa based on the current volumes (see fig 3). The fixed price maintenance element of the contract hire agreements will be pooled to fund the workshop and its activity. The combined value of scheduled and reactive maintenance (based on a 4 year period) amounts to an estimated revenue budget of £1.105 million.

Figure 2: Forecast Workshop Profit & Loss Account

Income		
*	Fixed Price Vehicle Maintenance	£856,284.00
#	Out of Scope Works (<i>labour only</i>)	£101,916.00
#	Non Fair Wear & Tear (<i>labour only</i>)	£146,859.00
#	MOT Income	£20,000
	total income	£1,125,059.00
Expenditure		
*	Workshop Staff (establishment cost)	£402,207.96
#	Parts	£280,000.00
#	PPE	£4,754.00
#	Plant and Tools	£5,000.00
*	Equipment	£10,000.00
#	Office Costs	£7,336.00
#	Utilities (Heat, Light, Power)	£19,610.00
#	Consumables	£7,108.00
*	Vehicles	£11,755.00
#	Vehicle Fuel	£6,000.00
*	Premises (<i>as per current lease rate/council owned</i>)	£147,000.00
*	Business Rates (<i>as per rateable value</i>)	£76,780.00
	total expenditure	£977,550.96
	Net surplus	£147,508.04

*These figures are based on a combination of actual figures (marked *) and estimates based on the current data available (marked #).*

- 3.3.7 The in-source of the workshop presents the opportunity to employ young people in skilled apprentice positions. As previously identified the workshop has traditionally offered a number of apprentice positions. Since the initial outsource this has ceased. As part of the in-source model a minimum of one apprentice motor fitter position would be offered together with one other apprentice positions.

3.3.8 Barking and Dagenham has a thriving sector offering commercial vehicle specialist services. A number of small and medium enterprises were previously engaged by the workshop to provide specialist work in areas such as bodywork, hydraulic repairs, steam cleaning, aluminum welding and vehicle modifications/conversions. If the in-source option is approved a contract for the provision of 'Local Specialist Automotive Services' would be let. This contract would place specialist vehicle maintenance work with local businesses.

4 Procurement Strategy

- 4.1 Implementing the recommended in-source option will not require the letting of a large scale like for like contract, however there will be a requirement to let of a series of support contracts:
- 4.2 Provision of Vehicle Maintenance Stores: A contract will need to be let provide parts and consumables for the workshop facility. This contract will operate along the lines of the Travis Perkins stock contract in Housing Repairs. The rear warehouse area of the workshop will be used for the storage of fast moving impress stock. There is the opportunity to lease this area to the stock supplier as a concession that they can use to fulfil orders to their other contracts. The benefits of this would be to increase the volume and range of stock held at the facility, avoid any direct cost of holding stock to the authority as well as delivering a lease income.
- 4.3 Mobile Tyre Fitting Contract: The proposal is for the letting of a third party tyre fitting service. The range of stock required, staff cover cost and range of operations mean that in house tyre fitting would not be a viable option. This would be procured via one of many existing framework contracts, for example the Crown Commercial Services Framework
- 4.4 Vehicle Procurement Contract: The current contract ties the Council into procuring vehicles on a lease basis. Going forward the proposal is to procure vehicles on a case by case basis using the myriad number of framework contracts that exist. This will allow the Council to tailor any finance options to the requirements at the time of procurement. For example if funds are available it would be more cost effective to take advantage of internal borrowing then to lease via third party finance.
- 4.5 Local Specialist Automotive Services: There will be an ongoing requirement for work to be placed with local specialist businesses. The value of this work will be well below EU thresholds. Formal tender exercises will be undertaken to ensure that the authority obtain best value whilst developing the extensive local market for specialist automotive services.
- 4.6 All Procurement exercises will be conducted in line with the council's constitution and where appropriate in line with the Public Contract Regulations 2006. Any support contract will be required to be approved by Procurement Board and Cabinet as appropriate. Potential suppliers will be evaluated on their economic and financial standing, health and safety standards, relevant British Standard (BS) and corporate human resource policies, particularly in relation to recruitment and selection procedures and training, and customer references.
- 4.7 Applicants will be assessed on a range of criteria relevant to the contract tender

process based on an 80% price 20% quality basis. The quality assessment will include:

- Contract management and control
- Contract implementation
- Recording and reporting systems
- Risk management
- Complaints managements
- Customer references

4.8 Corporate Procurement has been consulted as to the content of this report and has raised no issue with its content or the approach contained within. As per 4.2 All Procurement exercises will be conducted in line with the council's constitution and where appropriate in line with the Public Contract Regulations 2006. Any support contract will be required to be approved by Procurement Board and Cabinet as per the scheme of delegation.

5. Consultation

5.1 Consultation has taken place between the Divisional Director for Environment and the Head of Housing Repairs and Maintenance. Their key requirements are as follows:

- A local facility to reduce vehicle downtime and avoid the need for staff time to be spent transporting vehicles for repairs and servicing.
- No above inflation increase in maintenance costs.
- Greater flexibility for services to be undertaken outside of traditional 9-5 hours to reduce vehicle downtime and the requirement for costly cover vehicles.

5.2 Upon Cabinet decision formal consultation will need to take place with the workshop staff. Staff will be in scope of TUPE transfer to the Council. Informal discussion with the workshop staff and employee representatives indicates that they are in favour of a return to the Council. The majority of the workforce were previously Council employees and have been employed in the workshop for a significant period of time.

6. Financial Implications

Implications completed by: Carl Tomlinson, Finance Group Manager

6.1 The budgets for this contract (fig 1) were decentralised when this service was outsourced and are now held across several Council services. The costs for this service are charged to Vehicle fleet within Environmental services and then recharged in full across all the services that utilise. These costs will continue to be recharged in full if this service is brought back in house and there is not expected to be any financial risk to Environmental services or the services where the budget sits, based on the proposals in section 3.3 above.

6.2 The finance element of the Vehicle Contract hire agreements are shown in fig 1 as part of the overall contract value. There is no change to the vehicle leasing

contracts and they sit outside the scope of this report. If the decision is taken to move the service back in house this contract will still remain at £1.8m and be recharged out to all services in full. The vehicle contract hire agreements will be run down in each instance commensurate with the working life of each vehicle.

6.3 There are proposals to reduce the Council's current fleet of vehicles in the current round of savings, by re-procuring on a like for like basis will leave the Council open to financial risk of the contract being more than our requirements, negating any potential savings we would make from reducing our fleet.

6.4 The figures in Figure 2 are primarily based on estimates derived from actual data provided by Kier, the current supplier. These could change when the service is brought back in house, but basing on current operational costs increases the validity of the figures in the proposal and the estimated saving of circa £147k, as shown below, based on current budgets:

Total current contract value:	£1.125m
Total expected expenditure:	£0.978m
Total Saving on current contract:	£0.147m

6.5 Bringing the service back in house offers the most flexibility and financial security and also appears to maximise the income generation possibilities, i.e.

- Provide an MOT service to local residents generating income for the Council and provide a quality low cost service to residents.
- Training local apprentices in vehicle maintenance and mechanics will save on staff costs and provide essential skilling for local youths.
- Utilising dead hours between jobs to provide vehicle maintenance services to local residents.

6.6 This report does not outline the potential income generation possibilities from the options above. It is expected that once the service is re-established back in house, further income generation possibilities will be sought.

7. Legal Implications

Implications completed by: Daniel Toohey, Principal Corporate Solicitor, Legal and Democratic Services)

7.1 This report is seeking the approval of Cabinet to bring the future delivery of vehicle maintenance 'in-house' following expiry of the current contract with Kier, which is due to expire on 31st August 2015.

7.2 In the event that the recommendation to bring the services of the workshop back 'in-house' is authorised by Cabinet the provisions of the Transfer of Undertakings (Protection of Employment) Regulations 2006 ("TUPE") will apply. The Council will need to ensure that it complies with the consultation requirements under TUPE. The responsible directorate should ensure that it receives support from HR in the first instance during this process and also contact Legal Services if necessary.

7.3 It is noted in the report that if the Council does proceed with bringing these services 'in-house' the responsible directorate has indicated that a further report will be

produced, in the form of a Procurement Strategy Report, setting out the proposed series of support contracts it wishes to tender for and the possible procurement routes it wishes to utilise. Any such tender process will need to be conducted in compliance with the Public Contracts Regulations 2006 and the Council's Contract Rules.

7.4 Legal Services will be available to advise and assist with any further queries that may arise in this process.

8. Other Implications

8.1 **Risk Management** - A risk analysis of the recommended in-source option has taken place. The key risks identified are as follows:

Significant Reduction in Council Fleet Size

<i>Details</i>	The Council is in the process reviewing all costs relating to service delivery. Inevitably this will result in a reduced fleet sizes going forward.
<i>Consequence</i>	The level of fixed income from internal fixed price maintenance contracts will reduce.
<i>Mitigation/Solution</i>	The workshop is currently under resourced. Permanent appointments will only be made once the full impact of savings proposals has been determined. Continued significant fleet reductions will need to be mitigated by a proportional reduction in the establishment. Income from external maintenance agreements need to offset any fleet size reductions.
<i>How would this risk vary if we didn't choose the 'In-source' option.</i>	If instead of in-sourcing, the option to re-procure an 'as-is' contract was taken, a third party supplier would be faced with an identical risk and would likely take similar mitigating actions.

ICT Systems - not in place for contract handover

<i>Details</i>	The workshop uses the ICT system of the incumbent supplier. The Council Fleet Management Department uses an identical system however the live data is stored within the system of the current supplier. There is a risk that this data migration may not have fully taken place by the contract handover date.
<i>Consequence</i>	At contract handover a number of workarounds will need to be implemented via existing corporate systems, in the short term this may result in limited access to performance information and the some administrative tasks taking longer due to additional data input.
<i>Mitigation/Solution</i>	Use of the existing corporate suite of IT applications. Vehicle Maintenance will be undertaken using the existing Tranman system invoices will be raised solely using Oracle. In order to resolve any issues relating to the retention of historical records hard copy maintenance data will need to be printed off prior to

	contract end. This can be supported by an excel data file.
<i>How would this risk vary if we didn't choose the 'In-source' option.</i>	Any new supplier would be faced with this issue. The incumbent supplier will take their ICT infrastructure with them at contract end.

- 8.2 **Contractual Issues** - There is no option to extend the current contract with Kier. Upon expiry of the overarching current contract vehicles leases will continue as per each individual agreement, the fixed price maintenance element of the each vehicle contract hire agreement will cease upon contract expiry

The in-sourcing of the workshop will have TUPE implications for the staff that are currently employed maintaining the Corporate Fleet. Discussions will need to be held with Kier FPS to determine which staff that they believe are in scope. Kier will be required to issue to the Council with a detailed report outlining the staff details, wages and any additional information required. This will then need to be reviewed, ratified or disputed by the Corporate Legal Team.

- 8.3 **Staffing Issues** - It is assumed that all staff currently employed by Kier FPS at the workshop will transfer under TUPE to the Council. For the majority of the workforce this will mean a return to council employment. At present there are two vacant posts. As discussed in 8.1.2 the staff in scope of TUPE will need to be confirmed with both the incumbent supplier and legal services.

The apprenticeship programme has ceased entirely. If the in-source is confirmed the apprenticeship programme will recommence from September 2015 in line with the new academic year. Based on current fleet volumes 2 apprentice positions will be offered.

- 8.4 **Corporate Policy and Customer Impact** - The reinstatement of the workshops apprentice programme supports the vision 'Develop a local, skilled workforce and improve employment opportunities'.

The use of local businesses for the delivery of specialist services supports the Council's commitment to 'Growing the Borough'.

The workshop is the support service for front line services across the Borough including Street Cleansing, Grounds Maintenance, Waste Collection, Housing Repairs and Passenger Transport. Without adequately maintained fleet these services would be restricted in their ability to support the Authority in delivering its Vision and Objectives. For example; Grounds Maintenance & Parks 'Promote and Protect our Green and Open Spaces, Passenger Transport 'Narrow the gap in attainment and realise high aspirations for every child' and Housing Repairs 'Support investment in Housing...' and 'Build high quality homes and a sustainable community'.

No specific equalities group will be affected by the proposed changes to the delivery of vehicle maintenance.

- 8.5 **Safeguarding Children** - Due to the movement of vehicles and the operation of industrial machinery the workshop facility is not open to children. The apprenticeship programme will be managed in line with wider council policy

- 8.6 **Health Issues** - Workshop employees are in scope of Hand and Whole Body Vibration Legislation. The Council has a robust Hand Arm Vibration policy in place supported by health surveillance delivered by the Occupational Health Service. Workshop employees will be enrolled into the Council Hand Arm Vibration scheme
- 8.7 **Crime and Disorder Issues** - The workshop is located at Frizlands Depot. The depot has extensive security measures in place including alarm systems and closed circuit television cameras.
- 8.8 **Property/Asset Issues** - As a capital asset there will be an ongoing requirement to maintain the workshop building.

Public Background Papers Used in the Preparation of the Report: None

List of appendices: None